

Message Text

PAGE 01 BRUSSE 02783 181744 Z

70

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 COME-00 TRSE-00 FRB-02 CIEP-02

OPIC-12 OMB-01 CEA-02 XMB-07 SS-15 NSC-10 STR-08

AID-20 CIAE-00 INR-10 NSAE-00 RSC-01 EA-11 PRS-01

RSR-01 /140 W

----- 102819

R 181630 Z MAY 73

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 7588

INFO AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY THE HAGUE

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE BRUSSELS 2783

EO 11652 NA

TAGS: EFIN, XT, BE

SUB: MOVEMENTS OF SPECULATIVE CAPITAL

REF: STATE 81989

1. SUMMARY: ALONG WITH DUAL EXCHANGE RATE, BELGIUM HAS CAREFULLY TAILORED SET OF CAPITAL CONTROLS DESIGNED TO DAMPEN EXCESSIVE FLOWS WITHOUT INTERFERING WITH NORMAL CAPITAL MOVEMENTS. MONETARY AND BANKING OFFICIALS BELIEVE CONTROLS SERVED WELL DURING CRISIS EARLY THIS YEAR BUT ARE UNDER NO ILLUSIONS THAT THEY AFFORD ADEQUATE PROTECTION AGAINST SERIOUS CRISIS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRUSSE 02783 181744 Z

WE HAVE DISCOVERED NO UNOFFICIAL CONTROLS AND NO PLANS FOR NEW CONTROL. NEGATIVE INTEREST RATE ON NON- RESIDENT DEPOSITS LIKELY TO CONTINUE SINCE BELGIAN FRANC (BF) HAS RECENTLY BEEN STRONGER THAN DUTCH GUILDER. END SUMMARY.

2. BELGIAN DUAL FOREIGN EXCHANGE MARKET, ESTABLISHED IN 1955 TO PROTECT AGAINST EXCESSIVE LOSS OF RESERVES, OPERATED DURING 71-71 CRISES TO PROTECT OFFICIAL MARKET (TRADE-CONNECTED TRANSACTIONS) AGAINST SPECULATIVE INFLOWS. DURING JAN- MAR 73 CRISIS, FREE MARKET RATE FOR DOLLAR WAS AT ONE TIME THREE PERCENT ABOVE OFFICIAL MARKET RATE, DEMONSTRATING DAMPENING EFFECT OF DUAL MARKET AND PRESUMABLY RELIEVING PRESSURE ON BELGIAN NATIONAL BANK (BNB) TO INTERVENE. TWO MARKETS WERE COMPLETELY SEGREGATED IN MAY 1971, AND NO CAPITAL CONTROLS ARE APPLIED TO FREE MARKET.

3. DUAL MARKET DOES NOT, HOWEVER, PROTECT AGAINST SPECULATIVE MOVEMENTS WITHIN OFFICIAL MARKET, MAINLY LEADS AND LAGS, FORWARD TRANSACTIONS BY BANKS TO COVER EXPORT PAYMENTS, AND INCREASES IN CONVERTIBLE BF BALANCES (NON- RESIDENT ACCOUNTS WITHIN OFFICIAL MARKET). WHILE PAYMENTS FOR EXPORTS MUST BE RECEIVED WITHIN SIX MONTHS (ADVANCE PAYMENTS NOT ALLOWED) AND PAYMENTS FOR IMPORTS MUST BE MADE WITHIN THREE MONTHS BEFORE OR AFTER RECEIPT OF GOODS, THESE LIMITATIONS HAVE LITTLE EFFECT IN SHORT- TERM MONETARY CRISIS. MORE EFFECTIVE DAMPER ON LEADS AND LAGS IS CEILING IMPOSED ON COMMERCIAL BANKS' NET SPOT POSITION IN FOREIGN CURRENCIES AND CONVERTIBLE BF ACCOUNTS (TEMPORARY 10 PERCENT OVERAGE PERMITTED) AS OF MARCH 9, 1972 LEVELS. (SIMILAR MEASURE LIMITING COMMERCIAL BANKS' NET FOREIGN INDEBTEDNESS AND BEEN IN EFFECT FROM MARCH THROUGH SEPTEMBER 1971.) ALSO, IN ACCORDANCE WITH PRINCIPLE THAT CONVERTIBLE ACCOUNTS AND FORWARD TRANSACTIONS CARRIED OUT BY RESIDENTS SHOULD NOT EXCEED NORMAL WORKING BALANCES TO FINANCE CURRENT TRANSACTIONS, GOB MAY WITHHOLD ANY EXCHANGE PROFIT GENERATED BY SUCH BALANCES IF AMOUNTS CAN BE SHOWN TO HAVE EXCEEDED NORMAL WORKING REQUIREMENTS. AT BEGINNING OF 1973, COMMERCIAL BANKS WERE INDEED AUTHORIZED TO RECONVERT INTO FOREIGN EXCHANGE THAT PORTION OF CONVERTIBLE ACCOUNTS THAT IN THEIR VIEW EXCEEDED NORMAL REQUIREMENTS. ALSO AT BEGINNING OF 1973, A WEEKLY NEGATIVE INTEREST RATE OF 0.25 PERCENT WEEKLY (ANNUAL RATE OF 13.1 PERCENT) WAS LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 BRUSSE 02783 181744 Z

IMPOSED ON CONVERTIBLE ACCOUNTS WHOSE BALANCES EXCEEDED AVERAGE FOR LAST QUARTER OF 1972.

4. WHILE FREE MARKET TRANSACTIONS HAVE LITTLE MONETARY IMPACT, LEADS AND LAGS SHIFT, GROWTH IN CONVERTIBLE ACCOUNTS BALANCES AND INCREASE IN NET FOREIGN LIABILITIES OF BANKS DIRECTLY EXPAND LIQUIDITY OF BANKING SYSTEM. TO COUNTERACT SUCH EXPANSION, GOB HAS IMPOSED 100 PERCENT RESERVE REQUIREMENT ON CONVERTIBLE ACCOUNT BALANCES EXCEEDING AVERAGE HOLDINGS FOR THIRD QUARTER OF 1972. (RESERVE REQUIREMENTS ALSO APPLY AT VARYING RATES TO OTHER BE LIABILITIES HELD BY BANKS AND CERTAIN OTHER FINANCIAL INSTITUTIONS. ALTHOUGH PRIMARILY DIRECTED AT DOMESTIC MONETARY POLICY

GOALS, 100 PERCENT RESERVE REQUIREMENT ON INCREASES IN CONVERTIBLE ACCOUNTS DISCOURAGES BANKS FROM ACCEPTING TRANSFERS FROM NON- RESIDENTS.

5. FOLLOWING REPLIES KEYED TO SPECIFIC QUESTIONS IN REFTEL.

1. NONE

2. CONTROLS ARE INTENDED NOT TO INTERFERE WITH FREE MARKET FLOWS NOR WITH NORMAL CURRENT ACCOUNT PAYMENTS. THEY ARE DESIGNED TO COME INTO EFFECT ONLY WHEN PAYMENTS AND BANK BALANCES CLEARLY EXCEED NORMAL WORKING REQUIREMENTS. CONTROLS WORKED REASONABLY WELL DURING JAN- MAR 73 CRISIS ALTHOUGH MARKET EVENTUALLY HAD TO BE CLOSED WHEN OTHER MARKETS SHUT DOORS. BNB OFFICIALS AWARE THAT BF HAS NOT BEEN SPECIAL TARGET FOR SPECULATION AND BELIEVE THAT CONTROLS WOULD PROBABLY BREAK DOWN IN SERIOUS CRISIS.

3. IN JAN- MAR 73 CRISIS, DUAL MARKET MECHANISM APPARENTLY BLEW OFF SOME OF PRESSURE ON BF, TO SATISFACTION OF GOB. CEILING ON FOREIGN DEBIT POSITION OF BANKS WAS APPLIED RIGIDLY AND, OFFICIALS BELIEVE, EFFECTIVELY TO DAMPEN EXCESSIVE OFFICIAL MARKET CAPITAL FLOWS: I. E., FORWARD BORROWING BY BELGIAN BANKS AND FORWARD BF DEPOSITS BY FOREIGN IMPORTERS OF BELGIAN GOODS. EXPERIENCE WITH NEGATIVE INTEREST RATE IS SHORT; IT WAS APPLIED FOLLOWING DUTCH MODEL BUT WILL PROBABLY BE RETAINED FOR TIME BEING SINCE BF HAS BEEN STRONGER THAN GUILDER: I. E., BF IS MORE ATTRACTIVE CURRENCY FOR FOREIGN SPECULATORS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRUSSE 02783 181744 Z

NEGATIVE INTEREST RATE IS NOT EXPECTED TO DETER SHORT TERM SPECULATIVE FLOWS, BUT SHOULD AFFECT "PLAY IT SAFE" DEPOSITORS.

4. LIMITATIONS (THREE MONTHS FOR LEADS, SIX MONTHS FOR LAGS) ON CURRENT ACCOUNT PAYMENTS HAVE LITTLE EFFECT AND CANNOT BE SHORTENED WITHOUT INTERFERING WITH NORMAL COMMERCIAL PRACTICES. 100 PERCENT RESERVE REQUIREMENT ON INCREASE IN CONVERTIBLE ACCOUNTS WILL PROBABLY NOT DETER SPECULATORS HOPING FOR EXCHANGE RATE PROFITS.

5. AND 6 SO FAR AS WE ARE AWARE, ALL CONTROLS ARE FULLY IN FORCE.

7. BNB OFFICIAL SEES NO IMPACT OF JOINT FLOAT ON BELGIAN ENFORCEMENT OF CONTROLS.

8. WE KNOW OF NO PLANS FOR ADDITIONAL CONTROLS, ALTHOUGH BNB MAY WELL HAVE PREPARED CONTINGENCY MEASURES FOR IMPLEMENTATION IN EVENT OF NEW SPECULATIVE PRESSURE.

9. WE SEE LITTLE LIKELIHOOD THAT BELGIAN CONTROLS COULD
WITHSTAND A MASSIVE FLIGHT FROM DOLLAR INTO EUROPEAN CURRENCIES.
MOST OF PRESSURE IN CRISIS SITUATION COMES FROM LEGITIMATE
LEADS AND LAGS IN CURRENT ACCOUNT PAYMENTS. ONCE MARKET
CLOSED, SPECULATORS (I. E., THOSE WHOSE TRANSFER ARE
NOT RELATED TO PAYMENTS FOR GOOD AND SERVICES) COULD BE
" PUNISHED" UNDER EXISTING CONTROLS SINCE EXCHANGE RATE PROFITS
COULD BE CONFISCATED. CONTROLS ARE IN EFFECT STABILIZERS,
NOT FIRE EXTINGUISHERS.
STRAUSZ- HUPE

LIMITED OFFICIAL USE
NMAFVVZCZ
<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BRUSSE02783
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730560/abqceei.tel
Line Count: 175
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 81989
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by boyleja>; APPROVED <11-Sep-2001 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 980220
Subject: n/a
TAGS: EFIN, BE, XT
To: STATE INFO LONDON
BONN
PARIS
ROME
BERN
THE HAGUE
COPENHAGEN

OSLO
STOCKHOLM
EC BRUSSELS
OECD PARIS

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005